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CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

THE SUEZ CRISIS Page 1

Egypt's Stand: Nasr has refused to attend the London conference, but has indicated a desire to negotiate at a new conference which he would help sponsor.

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Meanwhile, Egypt is continuing its military preparations at a high pitch.

Soviet Views: The USSR probably views the London conference as a welcome cooling-off period, and as an opportunity to champion the cause of a small country. Moscow has indicated it will pose as chief advocate of the Egyptian position and will not support an international agreement that is not satisfactory to Egypt.

British and French Opinion: While the press in Britain and France reports increasing feeling that internationalization of the canal must be sought through negotiation, the Eden government has resumed reinforcement of its forces in the Mediterranean.

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PART II

NOTES AND COMMENTS

ARAB-ISRAELI SITUATION Page 1

The Arab states continue to be nervous about a possible Israeli attack, but indications are that Israel does not intend to make any military moves in the immediate future. The Syrian army is maintaining an alert, although the precautions taken in Damascus suggest that this action stems more from the Suez crisis than from the Arab-Israeli situation.

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SOVIET-JAPANESE TREATY NEGOTIATIONS Page 1

The Japanese government's refusal to accept Soviet terms on territories has led to a suspension of negotiations. Foreign Ministers Shepilov and Shigemitsu, meanwhile, are attending the Suez conference in London. In instructing Shigemitsu to continue the talks later, Tokyo apparently hopes to gain time in which to seek some face-saving concession and to prepare the public for a settlement more unsatisfactory than was anticipated.

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ANTI-STALIN CAMPAIGN CONTINUES Page 2

Although the Soviet Communist Party has recently emphasized the necessity of avoiding an excessive ideological relaxation, the revision of history under the anti-Stalin campaign has continued. De-Stalinization appears to have been launched in full force last week in the Georgian Republic, where it was soft-pedaled following the violent pro-Stalin demonstration in Tbilisi in early March.

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**PEIPING AND NEPAL
TO NEGOTIATE NEW TREATY Page 4**

A Chinese Communist diplomatic delegation is meeting with Nepalese officials in Katmandu this month to negotiate a new accord to replace one signed by Nepal and Tibet in 1856, following a military victory by Nepalese forces. Communist China will probably obtain permission to establish a consulate in Katmandu and may gain other concessions which would make possible an expansion of its influence in the Sino-Indian border region.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****16 August 1956****SOUTH KOREA'S LOCAL ELECTIONS Page 5**

The strong showing made by the opposition in the balloting for provincial assemblies on 13 August more accurately reflects the strengths of the Liberal and opposition parties than did the elections for local administrative posts on 8 August, which resulted in a landslide for the government Liberal Party. President Rhee is reported apprehensive concerning the domestic political situation, fearing that the Democratic Party is fomenting a revolution.

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CAMBODIA Page 6

Crown Prince Sihanouk, returning to Cambodia after a three-month trip to Communist and Western European countries, is expected to have difficulty resolving the political uncertainty which has prevailed since the Khim Tit government resigned in late July. Political vitality in Cambodia seems to be at a low ebb and it is unlikely that a strong and able government will emerge in the near future. Sihanouk's recent actions suggest there may be some substance to rumors he is considering including pro-Communist elements in the next government.

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LAOS Page 7

Premier Souvanna Phouma, on the eve of his departure for Peiping, has indicated his belief that, for all practical purposes, the Pathet Lao problem is settled. The premier has also expressed the conviction that in view of the prevailing spirit of "patriotism and mutual understanding," the work of the mixed committees charged with the responsibility of working out the final details will be accomplished in a matter of weeks.

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**VISIT OF PAKISTANI PRESIDENT
TO AFGHANISTAN Page 8**

The visit of Pakistani president Mirza to Afghanistan between 7 and 11 August occurred in an atmosphere of cordiality. It is probable there will be further discussions of mutual problems, although rapid progress in improving relations appears unlikely.

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THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****16 August 1956****THE ECUADORAN POLITICAL CRISIS Page 9**

Camilo Ponce Enriquez' narrow victory in the 3 June presidential election in Ecuador has been followed by increased plotting, an abortive military uprising on 6 August, and the boycotting of congress by two opposition parties on 10 August to prevent it from certifying his election. As a result, President Velasco Ibarra, reportedly at the height of his popularity, may try to continue in power after 1 September, the date set for the inauguration of a new president. Alternatively, he may transfer authority to a military junta or a provisional president controlled by the military.

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PART III**PATTERNS AND PERSPECTIVES****READJUSTMENTS IN THE EAST EUROPEAN SATELLITES Page 1**

The Communist parties of the Satellite states in Eastern Europe have faced open internal dissension in recent months to a greater degree than at any time since they came to power. Satellite bosses, apparently caught off guard by the intensity of the de-Stalinization campaign and having been granted increased responsibility by Moscow for the conduct of their countries' affairs, found it difficult to combat the rising disaffection and to adjust to the changes in Soviet policy. The extent and nature of Satellite changes in leadership and policy reflect an adjustment in each country to its internal situation, within the framework of policy established by the USSR. The greatest changes have occurred in Poland and Hungary, where deep-rooted disaffection had come into the open.

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BRAZILIAN NATIONALISM AND US BASES Page 7

Brazilian nationalism, as exploited by Communists and a wide variety of political opportunists, threatens to raise serious problems in the impending negotiations for new US military bases and facilities. The issue of sovereignty, which Brazilian officials foresee will be raised by the bases, is generally a sensitive one in Latin America, and is made even more so when, as in Brazil, it coincides with heated arguments over the alleged exploitation of a country's mineral resources by the United States.

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FERROUS METALS IN THE SOVIET SIXTH FIVE-YEAR PLAN . . . Page 10

Under the Sixth Five-Year Plan, Soviet steel production is to rise from 45,300,000 metric tons in 1955 to 68,300,000 tons in 1960, an increase which approximates the total annual production of Great Britain at present. This goal is likely to be met in view of the USSR's abundant reserves of raw materials, the experience gained during previous five-year plans, and the apparent margins of safety built into the Sixth Five-Year Plan.

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THE WEEK IN BRIEF

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PART I**OF IMMEDIATE INTEREST****THE SUEZ CRISIS****Egypt's Stand**

Egypt's President Nasr has refused to attend the London conference, but insists that he is ready to negotiate at a new conference which he would help sponsor. He continues to offer assurances that the canal will be kept open.

There are indications Nasr will rely on the "small powers" even more than on the USSR to defend Egypt's action and to sidetrack British and French proposals to set up an international authority to run the canal.

Mass demonstrations and a general strike in the other Arab states, North Africa, and possibly French Somaliland, scheduled to coincide with the opening of the London conference, probably have been instigated or encouraged by Cairo as evidence of support for the Egyptian position rather than as new, positive anti-Western moves. Syria, Jordan and possibly Bahrain are the areas where such demonstrations would be most likely to get out of hand. Public security in Egypt reportedly has been good and at this stage xenophobic riots would not suit Nasr's tactic of avoiding any act which might in his view provide the West with an excuse for military intervention.

"Imperialist Threats"

Nasr's statement of 12 August rejecting the invitation to London added nothing to arguments advanced earlier by Cairo's spokesmen, and, in its relatively unemotional language, continued previous attempts to portray Egypt as the party injured by "imperialist threats." It is on this aspect of the Suez crisis, rather than on the issue of the future ownership of the canal, that Arab opinion has been mobilized.

Egypt's military preparations to resist possible direct Western action, meanwhile, are continuing at a high pitch. Some of them, such as the proclamation of a "national liberation army," have been more for psychological than military effect. Some Egyptian troops and a substantial quantity of armor reportedly have been moved from the Israeli front on the Sinai Peninsula, and defenses of the canal zone, the delta region and the coast line have been considerably strengthened. Egyptian propagandists have asserted the canal will be "blown up" in case of Western action.

Soviet Views

The USSR probably views the London conference as a welcome cooling-off period, and as an excellent opportunity to champion the cause of a small country. Moscow has indicated it will pose as chief advocate of the Egyptian position and will not support an international agreement that is not satisfactory to Egypt.

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Statements by Soviet foreign minister Shepilov indicate that Moscow is confident of Egypt's legal position and probably believes it can, with other pro-Egyptian states, use the meeting in London to set the stage for a larger conference--probably along the lines already proposed by Nasr--or push the problem into the United Nations. Moscow has on several occasions alluded to the status of other waterways, suggesting that the USSR may broach such questions as the status of the Panama Canal and the Turkish Straits.

In a conversation with Secretary Dulles in London on 15 August, Soviet foreign minister Shepilov said he was not attempting to split the Western Big Three but that if differences did exist between the United States and the United Kingdom and France, the "US and USSR together might find a way out of this crisis," according to Ambassador Bohlen, who served as interpreter.

Moscow's chief reservation about the London meeting is the conference's competence to make "any decisions whatever" affecting the Suez Canal, because it has been so "arbitrarily" constituted.

Apparently in anticipation of Western proposals, Moscow has insisted that the "nationalization of the Suez Canal Company has nothing to do with the question of ensuring freedom of navigation through the canal, which is governed by the special convention of 1888."

Moscow has repeatedly pointed to President Nasr's promise to keep the canal open and Moscow radio on 13 August cited the

"more than 760" ships that have passed through the canal since it was nationalized as proof of Nasr's good faith and to show that there is "no reason for uneasiness" in the West.

British and French Opinion

Meanwhile, support for strong retaliation against Premier Nasr--even to the extent of war--has weakened somewhat in Britain and also diminished in France, although the French press maintains a sharp and condemnatory tone.

On the eve of the London conference, public opinion throughout Western Europe and Britain was in broad agreement that internationalization of the canal must be sought through negotiation, and that the authority of the United Nations should be brought to bear.

The initial enthusiastic British support for the government's policy on the Suez issue had given way to alarm that threats of military action were isolating Britain from world opinion.

Paralleling the shift in British public sentiment, the Labor Party qualified its support of the Eden government's policy. Commenting on the Labor Party's demand on 13 August for assurances that Britain would not attack Egypt over Suez, the American embassy in London reported a "vast majority" of the party was insisting that any action taken must be "clearly in conformity with the UN charter."

In France, the belief persisted that some action must be

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taken against Egypt to preserve the West's position in the Middle East. The consensus among French editorial writers, however, was that Nasr's counter-proposal for a redrafting of the 1888 convention to guarantee free passage through the canal had made the possibility of military action by Britain and France somewhat more remote and difficult. Nevertheless, both Britain and France appear to be continuing their military preparation for possible action against Egypt.

Britain has continued sending reinforcements to the Mediterranean area by airlift and troopship.

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[Redacted]
[Redacted] Press reports on 13 August indicated Britain has begun to pull some troops and equipment out of West Germany to replenish strategic reserves. 25X1

Among the other countries in Western Europe attending the conference, there appeared to be general public acceptance of the approach agreed on by the United States, Britain, and France, and an almost universal conviction that the Suez issue should be turned over to the UN. [Redacted] 25X1
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PART I

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PART II**NOTES AND COMMENTS****ARAB-ISRAELI SITUATION**

The Arab states continue to be nervous about a possible Israeli attack, but indications are that Israel does not intend to make any military moves in the immediate future.

The Syrians, following their well-publicized mobilization last week, are maintaining an extensive military alert. The special precautions being taken suggest, however, that the alert is more closely related to the Suez situation than to Israel. Iraq is continuing on a reduced scale to concentrate forces at the H-3 pumping station near the Jordanian and Syrian borders, and there has been an extensive call-up of Jordanian National Guardsmen.

A comment by Syrian prime minister Asali that he would need an army study to determine

the effect of the latest Israeli water diversion project begun north of Lake Hula suggests that Damascus has not decided on its reaction to this development, although it maintains its total opposition to diversion work in the Banat Yacov area south of Hula.

Tel Aviv appears to be holding to its "wait-and-see" attitude pending resolution of the Suez crisis, but Menahim Beigin, the leader of Israel's second largest political party, said on 13 August that Israel should announce its readiness to join Western powers in "delivering a blow to the Egyptian enemy." Minor shooting incidents occurred on the Israeli-Egyptian frontier between 9 and 12 August, which the Israelis have carefully noted as usual but do not appear to be playing up.

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**SOVIET-JAPANESE
TREATY NEGOTIATIONS**

The Japanese government's refusal to accept Soviet terms on territories has led to a suspension of negotiations. Foreign Ministers Shepilov and Shigemitsu, meanwhile, are attending the Suez conference in London. In instructing Shigemitsu to continue the talks later, Tokyo apparently hopes to gain time in which to seek some face-saving concession and to prepare the public for

a settlement more unsatisfactory than was anticipated.

It is evident that the USSR's offer to return Shikotan and the Habomai Islands and to refuse to relinquish the southern Kurils is Moscow's final position on the territorial issue, and that if a treaty is to be signed at this time, it will have to be on Soviet terms.

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Any doubt Shigemitsu may have had as to the firmness of the Soviet attitude apparently was dispelled when Bulganin and Khrushchev rebuffed his appeal for concessions. Shigemitsu subsequently announced that he thought it advisable to conclude a treaty on the Soviet terms.

Japanese government and Liberal-Democratic Party leaders were reported unanimous in opposing Shigemitsu's recommendation and were amazed that the foreign minister proposed not only to abandon Japan's claims to the southern Kurils but also to agree to limit navigation by naval vessels on the Sea of Japan to ships of the riparian powers. Some misunderstanding, however, may exist between Shigemitsu and Tokyo on the latter point, since the foreign minister has publicly stated the USSR is willing to drop this issue.

Minister of Agriculture and Forestry Kono, who negotiated a fishery pact with the USSR in May, is foremost in opposing Moscow's terms. He has declared the present Soviet position repudiates Bulganin's statement to him in May that a way would be found to put the territorial issue aside and that the USSR would drop the Sea of Japan issue. Kono has offered to go to Moscow and confront Bulganin in an all-out endeavor to gain a face-saving settlement which would avoid renunciation of Japanese

claims to the Soviet-held territories. The question of Soviet support for Japan's conditional membership in the UN is the only other unsettled issue.

Shigemitsu has indicated dissatisfaction with Tokyo's rejection of the Soviet treaty terms and has implied that the negotiations are being used for the purpose of domestic political bargaining. This divergence of views has led a Japanese newsmen to characterize the Moscow negotiations as "a talkfest between the Japanese delegation and the Tokyo government, rather than between Japan and the Soviet Union."

The Japanese government has not revealed which action it will choose. The possibilities range from breaking off the negotiations to agreeing to the Soviet terms.

In order to protect future claims to Soviet-held territory, Japan may find the simple restoration of diplomatic relations, without a treaty, the most feasible solution. Should Shigemitsu, on instruction from Tokyo, threaten to break off the negotiations, the USSR might suggest a normalization of relations, without a treaty. Such a move would probably depend on the degree to which the USSR thinks the Japanese government can still be moved toward accepting Soviet sovereignty over the Kurils and South Sakhalin.

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ANTI-STALIN CAMPAIGN CONTINUESHistorical Revision

Although the Soviet Communist Party has recently emphasized the necessity of avoiding an excessive ideological relaxation, the revision of history under the anti-Stalin campaign has continued. The authoritative party journal

Party Life announced in a recent issue that a number of basic political and historical texts, which will replace the Stalinist versions, are in preparation.

Problems of History, the publication of professional

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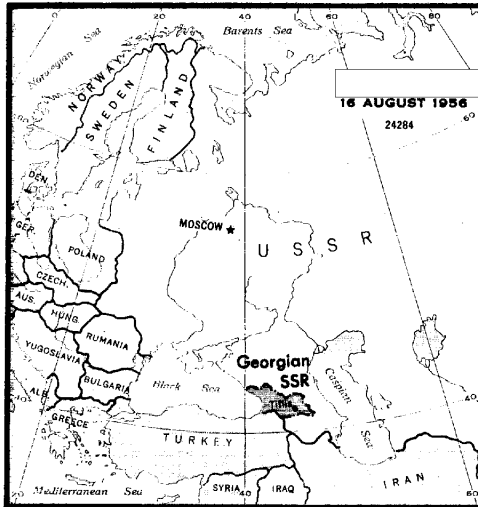
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historians, opened a new line of revision by repudiating the long-standing Russian claim to invention of the airplane. This step might logically be followed by surrender of Russian claims to a long series of other "firsts."

The same issue of Party Life and a recent issue of Kommunist, another authoritative party journal, have attempted to reorient the historical revision with attacks on Problems of History. Accusing the historical journal of "haste" and "sensationalism" in the general revision of history and of oversimplification and extremism in dealing with particular problems, the party organs warned against an approach which "confuses historians and student youth, and sows the incorrect notion that the intellectual struggle in historical science has receded into the background."

Problems of History was charged specifically with taking an overly tolerant attitude toward Tsarist and Western historiography, of praising unnecessarily the works of historians once condemned as heretics, and of blurring the differences between "Leninists" and opposition groups such as Mensheviks. "Peaceful coexistence of capitalism and socialism on the international scene," Party Life stressed, "in no way means the intellectual reconciliation of socialist and bourgeois ideologies."

The party's criticism of Soviet historians probably represents an attempt to check an excessive ideological relaxation rather than to interrupt the process of revision itself. "Deviations from the roughly drawn party line on 'new' history," Ambassador Bohlen has pointed out, "are almost inevitable and will require correction, whittling and trimming from time to time."



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Georgian Republic

The anti-Stalin campaign appears to have been launched in full force last week in the Georgian Republic, where it was soft-pedaled following the violent pro-Stalin demonstrations in Tbilisi in early March.

Zarya Vostoka, the Georgian party newspaper, on 7 August published for the first time an editorial on the harm which the Stalin cult and Beria had inflicted on the Georgian people. The editorial admitted that the denigration of Stalin had met with hostility from some Georgians, and lashed out at "certain nationalists and backward elements" who, "in connection with the condemnation of the personality cult, spread every type of slanderous fabrication," question party policy and attempt to discredit its leadership.

The editorial accused the Georgian propagandists of foot-dragging and called for an extensive campaign based on the central committee decree of 30 June to eradicate the consequences of the Stalin cult in Georgia. The appointment last week of one of the deputy directors of the propaganda and agitation department of the all-Union party

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apparatus as second secretary of the Georgian Communist Party points up the seriousness with

which the regime is approaching the anti-Stalin campaign in Georgia. [REDACTED]

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CHINESE COMMUNISTS DEVELOPING AIRCRAFT PRODUCTION CAPABILITY

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[REDACTED] a large aircraft plant was constructed in Mukden between 1951 and 1955 and that another plant there has been rebuilt and expanded.

similar size, the Mukden plant, when operating at full capacity, should be able to produce as many as 1,000 aircraft annually. 25X1 25X1

It is not known when this rate of operation may be reached, but the aircraft production program will undoubtedly be supported by the USSR. With such aid, China has been able to produce complex military items in a short time. The Soviet-assisted naval construction program which began last year has already produced two escort destroyers and two submarines at Shanghai.

For several years, Communist China's aircraft industry will be heavily dependent on the USSR for some components and technical support, and will probably be limited to production of standard Soviet models. Aircraft components--engines, electronic equipment and armaments--are now imported from the USSR. Communist China, however, is developing a variety of supporting industries. It will probably have a fully integrated aluminum industry this year capable of supplying the new Mukden factory with aluminum shapes and castings. Moreover, Peiping announced in June that it has succeeded in the trial production of jet airplane engines. [REDACTED] (Prepared by ORR) 25X1

On the basis of production capacity of Soviet plants of [REDACTED] also, the [REDACTED] [REDACTED]

PEIPING AND NEPAL TO NEGOTIATE NEW TREATY

A Chinese Communist diplomatic delegation is meeting with Nepalese officials in Katmandu this month to negotiate

a new accord. The treaty is to replace one signed by Nepal and Tibet in 1856, following a military victory by Nepalese

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forces. Communist China will probably obtain permission to establish a consulate in Katmandu and may gain other concessions which would make possible an expansion of its influence in the Sino-Indian border region.

Katmandu will probably insist on having a consul general in Lhasa for the protection



of Nepalese citizens living in Tibet. In return, Peiping will probably ask for similar representation in Nepal. Diplomatic relations between China and Nepal are now carried on through ambassadors stationed in New Delhi.

The Chinese will probably also press for establishment of special cultural and trade missions in Nepal. In March, Peiping sought permission to set up a library and information center in Katmandu. Although the Nepalese indicated they were favorably disposed toward the project, they have not formally approved it.

The Chinese have twice offered general economic assistance to Nepal, most recently

in February, and will probably offer an aid agreement in connection with the new treaty. The Nepalese are working on a five-year plan for economic development, estimated to cost about \$63,000,000. Thus far they have obtained credits to cover only about one third of this sum.

A question which seems certain to be discussed during the negotiations is that of the undemarcated Nepal-Tibet border. In February the Nepalese prime minister was reported anxious to have the frontier clearly defined, an anxiety which has probably been heightened by the recent publicity of Chinese incursions into the disputed area along the Sino-Burmese border.

Provisions of the 1856 treaty almost certain to be abrogated are those calling for payment of annual tribute to Nepal by Tibet, the grant of tax-free trading rights to Nepalese merchants, and the extension of extraterritorial privileges to Nepalese citizens living in Tibet.

The negotiations with Nepal, if successful, open the way for further expansion of Peiping's influence in the Sino-Indian border area. The Chinese could be expected to use a diplomatic mission in Nepal as a center for conducting subversive activities and promoting closer ties with the newly legalized Communist Party of Nepal. Until now, Nepalese Communists have looked primarily to the Indian Communist Party for guidance. (Concurred in by ORR)

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SOUTH KOREA'S LOCAL ELECTIONS

The strong showing made by the opposition in the balloting for provincial assemblies on 13 August more accurately

reflects the strengths of the Liberal and opposition parties than did the elections for local administrative posts on

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8 August, which resulted in a landslide for the government Liberal Party. Returns from six of South Korea's nine provinces and the capital city of Seoul give President Rhee's Liberal Party 169 seats, independents 111, and the Democratic Party 92.

Elections on both 8 and 13 August were generally orderly, although popular resentment against Liberal Party police measures was reported high in several opposition centers. It appears that the Liberal Party spared no efforts to guarantee success in the elections. [REDACTED]

[REDACTED] arrests and forced withdrawals of opposition candidates continued up to election day. As a result the party is firmly entrenched at the local level despite a widespread lack of enthusiasm for its policies.

The Democratic gains in provincial assemblies will provide them new forums for attacks on the administration. At the same time, the party's lukewarm campaigning for local administrative posts was consistent with past efforts to dissociate the party from administrative responsibility.

The evolution of Seoul as an antiadministration stronghold continued, with 40 council seats going to Democrats, six to independents, and only one to the Liberal Party. President Rhee, who regards his opponents as pro-Communist, is reportedly apprehensive concerning the domestic political situation, fearing that the Democratic Party is fomenting a revolution. Opposition strength in Seoul is probably particularly galling to Rhee, and a repetition of demonstrations such as those staged by opposition assemblymen in late July might prompt him to declare martial law and take punitive measures against opposition leaders.

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CAMBODIA

Crown Prince Sihanouk, returning to Cambodia after a three-month trip to Communist and Western European countries, is expected to have difficulty resolving the political uncertainty which has prevailed since the Khim Tit government resigned on 28 July.

Sihanouk is returning reportedly more convinced than ever that neutralism is the best policy for Cambodia. The prince's recent actions and statements, moreover, suggest there may be some substance to rumors that he is contemplating including one or two pro-Communists in the next government. While apparently as determined as ever to guard against Communist subversion within Cambodia, Sihanouk's attitude indicates the new government will probably be more amenable to closer relations with the Sino-Soviet bloc than its predecessor.

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increasingly concerned over Cambodia's instability and drift toward closer accommodation with the Communist Orbit. Cambodia's present receptiveness to receiving a Viet Minh envoy in Phnom Penh has caused South Vietnam's President Diem to renew complaints of Cambodian "un-co-operativeness."

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Meanwhile, relations between Cambodia and South Vietnam are again threatening to deteriorate. Saigon is

recent reports support the possibility of a fresh outbreak of border incidents.

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LAOS

Premier Souvanna Phouma, on the eve of his departure for Peiping, has indicated his belief that, for all practical purposes, the Pathet Lao problem is settled. The premier has also expressed the conviction that in view of the prevailing spirit of "patriotism and mutual understanding," the work of the mixed committees charged with the responsibility of working out the final details will be accomplished in a matter of weeks.

Other top Laotian officials generally seem to reflect Souvanna's satisfaction over the outcome of negotiations thus far. In the spirit of comradeship that exists in Vientiane, the Pathets may achieve representation in the government in advance of the promised supplementary elections, which will probably be held next spring. Souvanna might even resign in favor of his elder half-brother, Prince Petsarath.

Petsarath has declared his willingness to accept the premiership on his return to Vientiane from Thailand, where he has been in self-exile for over ten years. In view of his declared belief that all Pathet Lao leaders are essentially nationalist and his self-proclaimed "impartiality," the prospects are that any regime under Petsarath would contain Pathet Lao representation.

Although Souvanna has said he "gladly" complied with all the Pathets' requests that their rights be guaranteed, the Pathets can be expected to insist on specific action regarding such guarantees, particularly with regard to those details leading to the relinquishment of their control of Sam Neua and Phong Saly Provinces and the integration of their personnel into the royal army and civil administration.

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Also acting in favor of the Pathet Lao is the solid support it has received from North Vietnam, Communist China and the Soviet Union. The royal government, aware of

this support, is likely to hesitate before reneging on any promise or even alleged promise to the Pathet Lao for fear of provoking its more powerful neighbors.

VISIT OF PAKISTANI PRESIDENT TO AFGHANISTAN

The visit of Pakistani president Mirza to Afghanistan between 7 and 11 August occurred in an atmosphere of cordiality quite different from that recently shown Turkish premier Menderes. The door to negotiations between Pakistan and Afghanistan has been left open, and further discussions of mutual problems are almost certain to take place. Rapid progress in improving relations, however, appears unlikely.

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Possibly as a result of blunt remarks made by members of the Menderes party and by the American embassy in Kabul, the Afghan government extended a friendly reception to Mirza. On at least one occasion Mirza, to the surprise of many, was actually cheered by the normally undemonstrative population of Kabul as he passed through the streets.



passed through the streets.

The communiqué issued on 12 August at the conclusion of the visit supported statements by Maiwandwal that the way remains open for further negotiations. The Afghan government has agreed, in future negotiations, to consider the question of returning the ambassadors of the two countries to their respective posts. The Pakistani Foreign Ministry has also

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released the news that Mirza's trip was "highly satisfactory" and that the ambassadors may be reappointed. King Zahir Shah has agreed to a return visit to Karachi, which may take place some time during the coming winter.

Though no important progress toward easing Afghan-Pakistani relations is likely to be made in the near future, especially if the Afghans have to leave their home soil for talks in Karachi, the situation has at least been kept from crystallizing in a virtually hopeless form.

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THE ECUADORAN POLITICAL CRISIS

Camilo Ponce Enriquez' narrow victory in the 3 June presidential election in Ecuador has been followed by increased plotting, an abortive military uprising on 6 August, and the boycotting of congress by two opposition parties on 10 August to prevent it from certifying his election. As a result, President Velasco Ibarra, reportedly at the height of his popularity, may try to continue in power after 1 September, the date set for the inauguration of a new president. Alternatively he may transfer authority to a military junta or a provisional president controlled by the military.



Ecuador has been characterized for several decades by political instability and traditional animosity between Conservative and Liberal factions, but is nearing the completion of its second administration elected under the constitution of 1946. The decision of the Supreme Electoral Tribunal on 31 July conceded the Conservative candidate, Ponce, a slim plurality of 3,000 votes in a total of 615,000 cast for four candidates, each of whom polled over 100,000. Congress, however, must confirm this by a

formal declaration and this action was blocked by a boycott of two opposition parties--which reportedly ended on 16 August. At least temporarily, the boycott diminished Ponce's prospects for a peaceful accession to the presidency on 1 September.

Congress has not previously exercised its constitutional right to revise or invalidate the count of the electoral tribunal, although both the previous presidents failed to win a clear majority of the popular vote. There is no specific constitutional provision setting forth the procedures to be followed if the legislature should fail to certify the winning candidate.



Under the constitutional definition of the presidential succession, the president of the lower house would become provisional president in the absence of a legal incumbent in the presidency or vice-presidency. Presumably he would serve until new elections were held, although the constitution apparently permits his continuance in office throughout the full four-year term.

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Congress might, however, invalidate a small number of Ponce's votes and declare one of the defeated candidates the legal president-elect. Such a congressional strategem would seemingly provide the military forces with a "legal" justification for joining one of the opposition parties, influencing the choice of a provisional president, or assuming command through a junta. Until now, the military has remained loyal to Velasco, as evidenced by the prompt suppression of the Portoviejo uprising. Service loyalties, however, are believed divided among the various political factions and candidates.

President Velasco, making his third attempt to complete a presidential term, has threatened to resign, and may possibly transfer power to a military junta or a provisional president controlled by the military. Having displayed dictatorial tendencies during his former term as president and apparently commanding considerable prestige among the military and general public, he might feel "obliged" to continue in office beyond the scheduled date for the inauguration--a possibility which has been rumored frequently since the elections.

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PART III**PATTERNS AND PERSPECTIVES****READJUSTMENTS IN THE EAST EUROPEAN SATELLITES**

The Communist parties of the Satellite states in Eastern Europe in recent months have faced open internal dissension to a greater degree than at any time since they came to power. Satellite bosses, apparently surprised by the intensity of the de-Stalinization campaign and having been granted increased responsibility by Moscow for the conduct of their countries' affairs, found it difficult to combat the rising disaffection and to adjust to the changes in Soviet policy.

The extent and nature of Satellite changes in leadership and policy reflect an adjustment in each country to its internal situation, within the relatively broad framework of policy established by the USSR. The greatest changes have occurred in those areas--Poland and Hungary--where deep-rooted disaffection had come into the open. In contrast, few adjustments have been made in those Satellites where threats to stability either were weak or were overcome.

Despite the fall of Chervenkov in Bulgaria and the recent ouster of Rakosi in Hungary, the de-Stalinization campaign of the USSR apparently has not meant the wholesale abandonment by Moscow of Satellite leaders who are closely identified with the Stalinist era. The USSR will probably continue to support those leaders who can "adjust" to the new line and who have demonstrated an ability to maintain control over their own parties. The USSR may also continue to endorse the unpopular regime of Stalinist Ulbricht in East Germany and the unchanged rule of Hoxha and Shehu in Albania as long as complexities arising from present Soviet foreign policy vis-a-vis the

German question and Yugoslavia appear to warrant such support.

Although apparently now in firm control of the situation, the ability of the present regimes in Czechoslovakia, Rumania and Bulgaria to survive the current period of doctrinal flux without major adjustments of policy or personnel appears problematical. Much will depend on their ability to keep in check party and popular dissension, an ability which may well be jeopardized by the rapidly moving developments in Poland and Hungary. Another factor is the effect of possible pressures from Yugoslavia--now accepted by the USSR as a true, yet independent Communist state--for further changes in Satellite policies and personnel.

The immediate goal of the Satellite parties is to maintain or restore party unity; a longer-range purpose is to gain increased popular support for the Communist system. The approach to these objectives in Poland, and possibly Hungary, appears to represent a genuine departure from previous methods and thus holds at least some slim promise of gaining popularity for the system. Such a program, however, poses a direct threat to the immediate aim of building party unity, since increasing pressures for more political and economic freedom might produce a runaway movement that could be stopped only by direct Soviet intervention. Although, conversely, the more orthodox approach to the same objectives in the other Satellites may be attended by fewer risks, the likelihood of achieving the longer-range goal of popular support appears not much brighter than it did during the Stalin era.

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Poland

The ferment of political and economic discontent that began to appear early this year in Eastern Europe has gone further in Poland than in any other Satellite, and there it reached the greatest height of protest--in the Poznan riots of 28 June. Nearly all aspects of Polish life have been subjected to sharp public criticism and, in an effort to correct past mistakes and brighten future prospects, numerous changes have been made in the leadership of the party and government.

Following the Soviet party congress in February, two groups appeared among top officials of the Polish Communist Party--an "orthodox" group which favored a cautious attitude toward the de-Stalinization campaign, and a group of "moderates" which wanted to push the program of liberalization Moscow had ostensibly permitted. These differences were accentuated by the death in March of First Secretary Boleslaw Bierut, the man who had guided Polish affairs since 1948.

**CYRANKIEWICZ**

The orthodox group is led by First Secretary Edward Ochab, a man with a militant Moscow-oriented background. While publicly acknowledging the need for liberalization, Ochab is intent on showing the course of the moderates toward greater freedom. His supporters reportedly include two party secretaries, the chief of the political directorate of the armed forces, and the head of the Polish trade unions.

The moderate group is led by Premier Jozef Cyrankiewicz, a former Socialist, who, after several years as a figurehead, began to take an increasingly active role after the 20th party congress.

In addition to its strength at the top, the moderate force apparently includes a majority of second-level officials, many of whom began pushing for more liberal policies shortly after the death of Stalin. The core of this group is within the Central Party Activ, a group of from 150 to 200 party officials through whom the politburo keeps in touch with the party membership. A great many party ideologists, cultural workers, journalists and about two thirds of the members of the central committee are reportedly in sympathy with the objectives of the moderates.

**OCHAB**

Both the orthodox and the moderate leaders have by now indicated their support for decentralization of the economy and the administration, adherence to legal methods in the administration of justice, and greater emphasis on raising the standard of living. There are differences, however, in motivation and emphasis concerning these matters, and there are major differences on the permissible degree of freedom of expression and party democracy.

Ochab has warned that much of the recent criticism has gone too far and that he is strongly opposed to a relaxation of party discipline. The moderates, on the other hand, feel that public criticism is still insufficient, and that the party should not be rigidly controlled from the top.

Both Ochab and Cyrankiewicz in recent policy speeches stressed the regime's intention of implementing major economic and administrative reforms, and the official Polish line toward the Poznan riots placed primary emphasis on the legitimate demands of the workers. The orthodox forces apparently have been forced to give considerable

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ground. The recent restoration of Wladyslaw Gomulka to party membership is another reflection of the growing strength of the moderate element. This retreat may enable the two groups to work together publicly for the time being, but once reforms have been implemented, the moderates are apt to renew their demands for additional concessions and the conflict will begin again.

Hungary

The pressures for personnel and policy changes generated in Hungary by the Soviet party congress were second in magnitude only to those in Poland. Party factionalism and general disaffection with the top party leadership, evident since early last year, came more and more into the open and produced specific attacks against party leader Rakosi, condemnations of "Stalinist" policies, and strong calls for intellectuals and some party members for an era of party democracy and moderation.

The effect of the de-Stalinization campaign in Hungary reached its highest point on 18 July with the ouster of Matyas Rakosi, party first secretary and the leading figure of the Hungarian party since the 1920's.

Rakosi, who had been "unable to readjust to the post-Soviet congress policies" and who had failed to subdue his opposition, was removed from the secretariat and from the politburo. Although thus conciliating the anti-Rakosi forces, Moscow appointed as his successor Erno Gero, a Rakosi associate and reliable Moscow-oriented Communist.

The selection of Gero and the appointment of several anti-Rakosi figures to the politburo

and the central committee seemed to serve notice to party moderates that, while their political strength would be increased and some of their domestic policies adopted, such a readjustment was to be effected only in a gradual and controlled manner.

It seems possible that Gero, with Moscow's support, may for a time achieve a measure of what Rakosi, with the same support, had utterly failed to accomplish, i.e., at least the surface appearance of party unity. By abandoning Rakosi's tendencies toward a hard line and by appearing conciliatory, while at the same time attempting to keep a restraining hand on the activities of the extreme right-wing group around former premier Imre Nagy, Gero may be able to reduce overt forms of party dissidence. But because he has been closely identified with Rakosi, Gero probably is basically unpalatable to major segments of the party.

Accordingly, his success is likely to be both limited and temporary and his position as first secretary may be short-lived. The eventual selection of a leader capable of gaining more support from within the party would appear to be a distinct possibility.

East Germany

The leadership problem in East Germany centers on the person of Walter Ulbricht, first secretary of the Socialist Unity (Communist) Party. Despite widespread criticism of Ulbricht for his domination of the party and his identification with Stalinism, he and his Soviet-backed group have remained in control.

A major purpose of the recent visit to Moscow by a delegation headed by Ulbricht and Premier Otto Grotewohl undoubtedly was to obtain public

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Soviet endorsement for the party's leaders. The Soviet support received may be provisional, since the primary consideration affecting Ulbricht's tenure probably is related to Soviet plans for the solution of the German problem as a whole.

Ulbricht may be ousted when the German unification issue comes to focus on him to such an extent that his removal could be made to appear to be a concession to West Germany,

possibly just before the 1957 West German elections. In this event, it would be intended to convince the West Germans that, with Ulbricht out of the way, the Social Democrats, if brought to power, would be able to make headway toward unification through direct negotiations with East

Germany.



Removal of Ulbricht would be welcomed by the East Germans. He is heartily detested in party circles, as well by the East German people, and recent events undoubtedly have led many party members to believe his fall inevitable. Attacks on Ulbricht for being a practitioner of the "cult of personality" and closely identified with Stalinism, while confined to the party rank and file, were sufficiently widespread last spring to make it necessary for high-ranking party leaders to defend him publicly. As long as Ulbricht enjoys Soviet backing and continues as party first secretary, potential opposition at the politburo and central committee levels will probably remain quiescent.

Nevertheless, Ulbricht apparently has been forced--either by the low-level pressures from within the party or by the policy demands of the USSR--to call for the promotion of "democracy" in East Germany. For example,

in a surprisingly liberal-sounding party speech in late July, he admitted that many East Germans have fled the country because of the incorrect attitude of "bureaucratic and soulless" state officials who violated the "private interests of citizens." Such attitudes, Ulbricht implied, are now a thing of the past.

A potential rival, Franz Dählem, recently was absolved by the central committee of charges made against him in 1953, and he has been given a second-level government post. A former politburo member, Dählem once was Ulbricht's foremost rival within the party and favored many of the liberal features characteristic of the new policy.

Czechoslovakia

Although admittedly faced last spring with "great ferment" within the party and with overt forms of dissidence, the Czech regime since June apparently has been able to impose an appearance of calm over the Czech political scene. Top party leaders, after a period of apparent confusion and equivocation, proclaimed the validity of past policies and scored dissident elements during the national party conference in mid-June. Their most recent pronouncements indicate a determination to minimize concessionary policies and to maintain the present composition of top party organs.

Significant changes in the Czech party hierarchy have been infrequent since the death of former strong-man Klement Gottwald in March 1953. One former politburo member, Gottwald's son-in-law, defense minister Alexej Cepicka, was ousted from his posts last spring as a practitioner of the "cult of personality," but the ruling triumvirate--President Zapotocky, Premier Siroky and party first secretary Novotny--

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apparently is in full control. With the aging Zapotocky increasingly assuming the role of elder statesman, top power is reportedly shared equally by Siroky and Novotny. Although there were some indications last year of disagreement between the two men over the agricultural collectivization program, any such differences appear since to have been resolved.

Disaffected elements--chiefly local party officials, intellectuals and university students--have been relatively quiet since last June. The present calm, however, may reflect only an untroubled surface, beneath which the ferment continues to exist, restrained, but not eliminated.

If either renewed pressure from within the party or increased pressure from the USSR dictate an acceleration of domestic liberalization, the Czech leaders could probably adjust with a minimum of embarrassment. The party bosses have long given at least lip service to concepts such as collective leadership, decentralization of authority and "socialist legality." Several important officials with rigidly doctrinaire views--such as party cultural boss Kopecky--could be sacrificed without major repercussions.

Rumania

Rumanian party leader Gheorghiu-Dej has maintained his pre-eminent position and has demonstrated both a willingness and an ability to "stand pat," alleging that the new Soviet principles have in general already been instituted in Rumania, in some cases as long as four years ago. Limited concessions may be enacted gradually, but a major shake-up of the top leadership does not appear imminent.

There has been some pressure from within the party for changes in policy and leadership, but the party dissension which appeared last spring--primarily among intellectual circles--has apparently been brought under control by the regime, without a compromise.



SIROKY

In the event of Soviet pressures for an increasingly liberal-appearing domestic policy, Gheorghiu-Dej could probably adjust to a new line with relative grace and a minimum of embarrassment. If called on to provide a scapegoat for past "Stalinist excesses," Dej could sacrifice politburo member Iosef Chisinevschi, a doctrinaire party ideologist, without adversely affecting his own position.

The apprehension with which the Rumanian leadership viewed Tito's visit to Bucharest in late June proved to be unfounded, and the conclusion of the joint Yugoslav-Rumanian agreement apparently buoyed the confidence of Gheorghiu-Dej.

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Bulgaria

In the four months since the downgrading of former premier Vulko Chervenkov, the Bulgarian regime has effected no important changes in the nation's political and economic policies. The Bulgarian leadership's recent unusual consultations with Soviet leaders indicate, however,



GHEORGHIU-DEJ

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that it may soon undertake more varied policies and shift more top personnel. The Bulgarian leaders last month had two conferences with Soviet first deputy premier Mikoyan. The first was attended by Premier Yugov, party secretary Zhivkov and Deputy Premier Chervenkov, among others. Zhivkov and Chervenkov did not attend the second meeting in the Crimea in which Soviet party secretary Suslov took part.

Chervenkov, despite his drop in rank--now fifth among six deputy premiers--still retains considerable power and may be gaining more. He reportedly is behind the measures to crack down on criticism, and possibly behind Bulgaria's slowness to implement improved relations with Yugoslavia.

Chervenkov's present position and the reasons for his removal from the premiership still are unclear. It is probable, however, that in early April he refused to allow the posthumous "rehabilitation" of Bulgaria's Titoist, Traicho Kostov, once Chervenkov's archrival for power. Other

Bulgarian Communist leaders may have adopted the position, possibly with Soviet guidance, that Kostov would have to be rehabilitated and that therefore Chervenkov would have to be replaced, though not stripped of much of his power.

The absence of both Chervenkov and party secretary Zhivkov, presumably Chervenkov's protégé, from the Crimean talks indicates that Premier Yugov may be determined to clarify his own position, possibly by gaining Soviet approval for the removal of Zhivkov from his party position.



The Bulgarian and Soviet leaders may also have discussed Bulgaria's relations with Yugoslavia. A week after the Crimea talks, Pravda published an article by Yugov in which he attacked those in the West who talk of a Balkan federation; "at this moment," he said, "the question of a Balkan federation cannot be raised." Yugov may have felt that some clarification of the federation question was necessary. His failure to rule out a Balkan federation in the future, however, can hardly do much to allay Bulgarian fears that a rapprochement with Tito carries with it the specter of Yugoslav domination.



The Bulgarian regime's failure to relax its "hard line" economic and political policies, particularly those concerning the extraordinarily rapid collectivization drive, may also have been discussed. If so, Mikoyan may have suggested the development of a new approach by the Bulgarian leaders to rectify the country's poor economic situation and to improve the morale of both the party and the people.

Albania

Albania is the only Satellite which has failed to undertake at least some "de-Stalinization" measures. The regime has made no significant changes in its political or economic policies nor in the composition of its top leadership. The party claims that its "cult of personality" problems were solved in July 1954, when party first secretary Enver Hoxha gave up the premiership to Mehmet Shehu, and it does not admit the existence of any problems concerning "socialist legality."

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The party has already clamped down on a group of Communists who criticized the regime for its lack of collective leadership, lack of economic success and its unfriendly attitude toward Yugoslavia. The size, influence and cohesiveness of this faction is

unknown, but party boss Hoxha, at the Albanian Workers (Communist) Party Congress in May, condemned such people as "antiparty," "sickening" intellectuals, and "deviationists."



The Albanian leaders, and possibly the Soviet leaders as well, probably feel it would be extremely difficult to develop Albanian-Yugoslav friendship without running the risk of excessive Yugoslav influence. As recently as last May, Hoxha, in a speech to the party congress, strongly reaffirmed the guilt of Koci Xoxe, the Albanian Communist executed

as a "Titoist" traitor in 1949. His speech included a few platitudes about improved relations with Yugoslavia, but the general tenor of his remarks was sufficiently unfriendly to cause public criticism from Belgrade. Hoxha, in effect, identified himself with anti-Yugoslavism almost as much as had Premier Shehu, whose dislike of the Yugoslavs was evident even before 1948.

It is difficult to reconcile the presumed Soviet policy in Eastern Europe with present Albanian activities. It is possible, however, that Moscow views Albania's unique position --its sensitive relations with Yugoslavia, its geographic isolation, its relatively primitive culture--as warranting special treatment. At any rate, major changes of policy and leadership apparently are not imminent.

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BRAZILIAN NATIONALISM AND US BASES

Brazilian nationalism, exploited by Communists and a wide variety of political opportunists, threatens to rouse serious problems in the impending negotiations for new US military bases and facilities. The issue of sovereignty, which Brazilian officials foresee will be raised by the bases, is generally a sensitive one in Latin America, and is made even more so when, as in Brazil, it coincides with heated arguments over the exploitation of a country's mineral resources by the United States.

Growth of Nationalism

Nationalism became important in Brazil in the years just before President Getulio Vargas set up the fascist-oriented "New State" in 1937. The "New State" marked the end of exaggerated federalism; and the resulting sense of nationality has been intensified by Communist propaganda campaigns, demagogic politicians, and elements in the armed forces.

In Brazil-US military relations, the illegal but

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influential Communist Party has been particularly successful in using nationalism for its own ends. Though Brazilian troops fought in Italy during World War II, Communist appeals to national "self-interest" and pacifist sentiment are credited with forestalling the sending of a similar contingent to Korea. In 1952, a combination of Communist appeals and opposition opportunism delayed ratification of the Brazil-US military pact for nearly a year.

The increased sense of nationality has also led to considerable agitation against "giving away the national patrimony to foreigners." A campaign to exclude American and other foreign oil companies--sparked in 1947 by the Communist slogan "The Petroleum is Ours"--culminated in 1953 in the creation of a national petroleum monopoly--PETROBRAS. During the second Vargas regime (1950-54), this agitation about the country's natural resources caught the Brazilian imagination and was given a new boost by the "anti-Wall Street" allusions in Vargas' suicide note, made public immediately after his death in August 1954. Vargas' note led to violent anti-American rioting and considerable destruction of American property in Brazil.

Nationalism and the US

Since 1950 this type of appeal to national pride has provided rallying cries not only for Communist campaigns to damage Brazil's relations with Washington, but also for demagogues and conservatives wishing to attack the administration. The anti-American overtones have consistently dismayed the old-school Foreign Ministry and have frequently alarmed the more responsible politicians, who see Brazil's economic and political future tied to that of the United States.

A recent public opinion survey supports President Kubitschek's statement that Brazilians have a vast reservoir of good will toward the United States. The survey showed that 86 percent of Brazilians with opinions on the subject had a favorable general impression of the United States--a higher proportion than in any other Latin American country surveyed. On specific issues, however, opinion was considerably less favorable. Only 49 percent believed Washington treated Brazil "as an equal." Over 55 percent--with heavy emphasis on the upper economic groups--believed the United States is guilty of "intervening in internal affairs," such as coffee prices and the exploitation of mineral resources. Brazil has for years considered itself "Washington's senior partner" in Latin America and therefore deserving not only "fair treatment" but consideration as a peer.

Nationalism in 1956

In the six months since Kubitschek's inauguration, the powerful conservative opposition has constantly whipped up nationalist sentiment in its all-out campaign to harass the administration. Kubitschek deliveries to the US of rare earths--under contracts made by previous administrations--has been pictured daily by the powerful opposition press as "giving away the nation's patrimony." The government has also been accused of insufficient enthusiasm for keeping foreigners out of the oil business. Kubitschek's efforts to make Brazil attractive to US investors and to obtain economic assistance have been attacked in some influential quarters as creating unnecessary burdens and tying Brazil even more closely to "unstable" US markets.

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Communists and others have also stressed self-interest and national pride in pressing for increased trade and diplomatic relations with the Soviet bloc. They point to bloc purchases of Brazil's cotton and coffee as an answer to surplus problems and portray Brazil's limited diplomatic relations with the bloc as subservience to US interests.

In June, Kubitschek made a strong public attack on "narrow nationalism," assuring Brazilians they need not fear being exploited in international relations. Shortly afterward, however, he privately expressed concern over the power of the "Communist-nationalist minority." He added that even some of his advisers were beginning to counsel against the political consequences of having "special" relations with the United States. Kubitschek told Ambassador Briggs he would need US help and moral support to continue his anti-Communist, antinationalist campaign.

American Bases

Brazilian nationalism threatens to raise particular difficulties in the impending talks on US military bases. These negotiations involve: (1) 20-year rights to large tracts of land for a guided missile tracking station on the island of Fernando de Noronha and for a communications facility near Maceio in northeastern Brazil; (2) sites for two air bases, both in the northeastern segment of Brazil's 5,000-mile coastline, and continued MATS facilities in Rio de Janeiro; and (3) sites for three LORAN stations of the type already agreed to by Costa Rica, Ecuador and several other Latin American countries.

Bases Problem

The Brazilian government--which recently received substantial developmental credits from the Export-Import Bank--appears disposed to seek a solution to the sovereignty question. High officials have warned, however, that nationalist sentiment will prevent congressional approval of any new military bases for the United States. They have also warned that any administrative arrangements under the 1952 bilateral military pact must be carefully drafted to meet inevitable nationalist attacks when either press "leaks" or the activities of American personnel bring the subject into the public eye.

Brazilian officials are especially apprehensive about reaction to 20-year concessions of territory and privileges in view of sentiment against such arrangements in other parts of the world.

Administration Attitude

To help prepare an answer to accusations that any military base deal with the United States has been a "one-way street" yielding no benefits to Brazil, the Foreign Ministry requested in March the loan of an aircraft carrier and priority treatment of existing requests for other military equipment. Brazilian officials also suggested the device of publicly "inviting" the US to "collaborate"--without special privileges--in establishing mutual defense radar stations and airstrips.

The administration's fear of seeming to be manipulated by the United States was underscored in a speech by house majority leader Tarcilo Vieira de Melo on 11 July. He said

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Brazil's new ambassador to Washington, Amaral Peixoto, faced a difficult task in "restoring undeniable reciprocity" in US-Brazilian relations. He also accused Washington of being "preoccupied with thoughts of enlarging and maintaining North American security areas throughout the world" instead of considering the real needs and aspirations of "good friends."

Kubitschek's prestige and his determination to oppose the Communist-nationalist minority have probably been fortified by the announcement on 31 July of American credits for basic developmental projects in Brazil. This Brazilian "success," however, will probably not appreciably reduce the present vulnerability of Kubitschek or of the United States to widespread attack on the issue of specially privileged US military bases.

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FERROUS METALS IN THE SOVIET SIXTH FIVE-YEAR PLAN

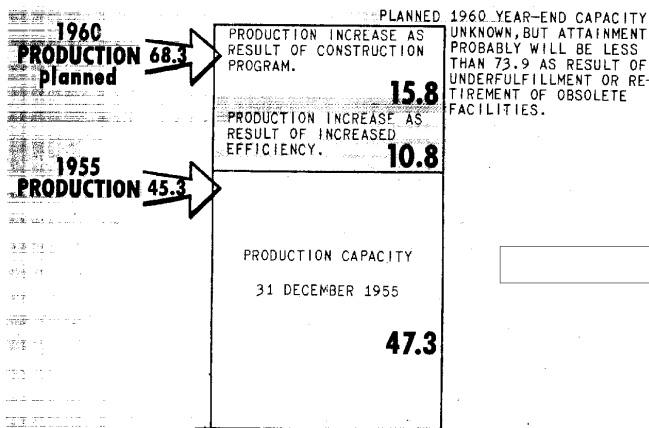
The Sixth Five-Year Plan for the Soviet iron and steel industry provides for the largest expansion program yet realized during a five-year period. Production of crude steel is scheduled to rise from 45,300,000 metric tons in 1955 to 68,300,000 in 1960, an increase which approximates the present production of Great Britain. Of the 23,000,000-ton increase to be obtained, the regime will rely on continuing increases in production efficiency to furnish nearly half.

New capacity is to be brought into production largely at existing plants. However, construction is planned for Siberia and Kazakhstan, where, on the basis of the region's coal and iron ore reserves, the USSR plans to develop

over the next 10 to 15 years an iron and steel center ranking third in size to the Ukraine and Urals, which now account for 70 to 75 percent of the Soviet iron and steel output.

PLANNED INCREASES IN SOVIET STEEL PRODUCTION AND CAPACITY 1955-1960

millions of metric tons



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The USSR obviously intends to obtain sufficient steel to support the over-all industrial growth it has projected for 1956-1960. Although the industry's expansion is not a direct preparation for war, it greatly increases the USSR's war potential. The USSR is already the world's second largest steel producer. In 1955, production of crude steel was 17 percent of world output, 43 percent of that of the United States, and 72.5 percent of total production in the Sino-Soviet bloc.

The industry's major production goals are likely to be met in view of the abundant reserves of raw materials, the experience gained during previous five-year plans, and the apparent margins of safety built into the Sixth Five-Year Plan with respect to the production of iron ore, pig iron, and crude and finished steel.

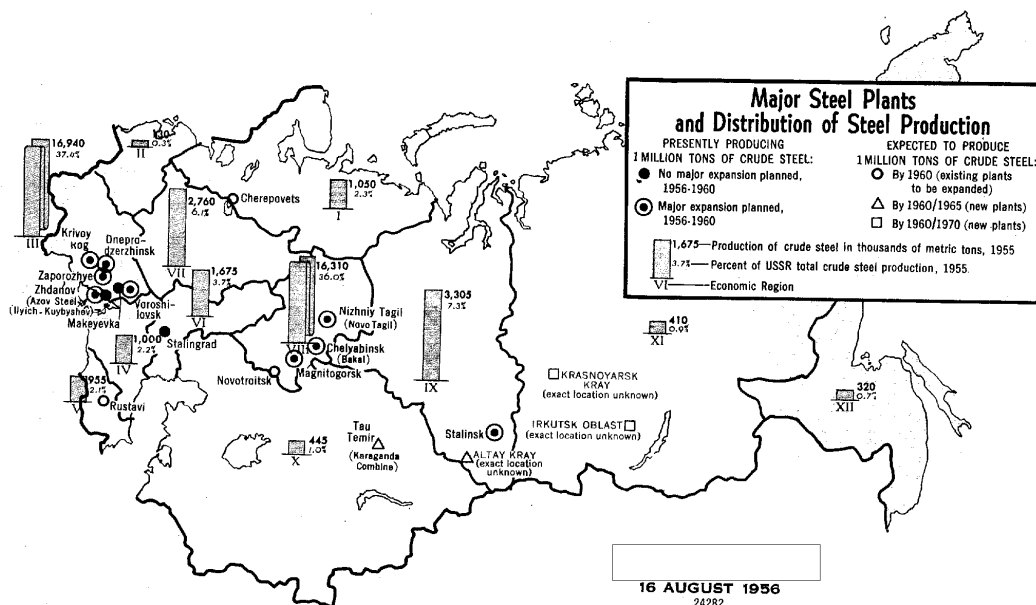
Crude Steel Capacity

Since the Soviet industry consistently operates at capacity, the production of 23,000,000 metric tons more of crude

steel in 1960 than in 1955 will require an expansion of similar magnitude in capacity. A consensus of estimates indicates that in the same period about 20,000,000 metric tons will be added to the present 116,000,000 metric tons of crude steel capacity in the United States. On this basis, the USSR's planned capacity in 1960 would equal 52 percent of that in the United States as compared with 41 percent in 1955. In absolute figures, the USSR's capacity will be comparable with that of the United States in 1931.

Rolled Steel

The planned increase of 17,400,000 metric tons of rolled steel by 1960 includes a major expansion in flat rolled steel products. Soviet industry has long been deficient in these products, which are used largely in the production of consumer goods. Production is to be increased by installing a number of continuous sheet and strip mills. Soviet technicians have had little experience in building this type of mill, the first

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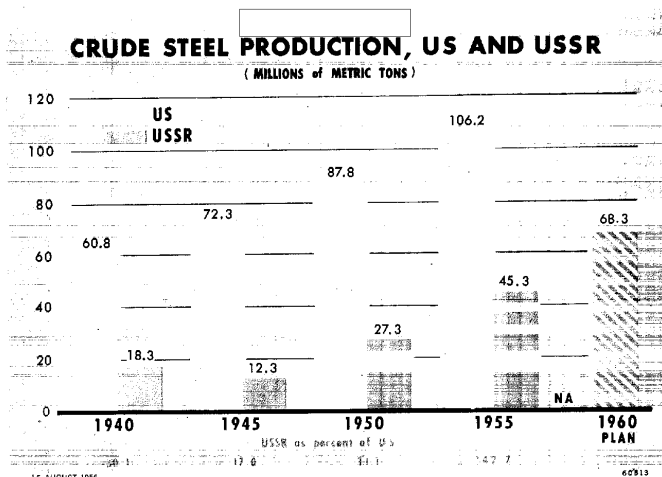
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unit of Soviet design and manufacture having been installed only last year.

Previously, the only mills of this kind in the USSR were two units purchased in the United States in the 1930's and one that was removed from Germany. The Soviets say they will raise the proportion of flat-rolled products during the next several five-year plans to 40 to 45 percent of total rolled steel production, similar to that in the United States. It is doubtful, however, if this will be done unless consumer goods industries are assigned a much higher priority than they now receive.

Raw Materials

To support the expansion in steel output the USSR plans substantially increased production of iron ore and other raw materials. Iron ore production is scheduled to increase from 71,900,000 metric tons in 1955 to 114,300,000 metric tons in 1960.

Much of the planned new iron ore production will require the provision of beneficiating--ore treating--facilities. The Soviets expect that by 1960 about two thirds

of the commercial grade ore supply will be so processed, as compared with one third in 1955 and about one sixth in 1950. Although born of necessity, increased beneficiating reflects only a small decline in the quality of the USSR's ores, which are generally of good quality and abundant. Furthermore, beneficiating has such positive benefits as increasing furnace productivity and lowering the rate of coke consumption.

Similar measures are being taken by the American steel industry, although not on as broad a scale.

Technology

Russian iron- and steel-making technology in general is on a par with that of leading Western nations. In putting new technological developments into practice, however, the USSR has concentrated on certain segments of the industry and on a limited number of plants. Emphasis has been put on increasing the production of pig iron and crude steel; considerably less attention has been given to rolling-mill and finishing-line technology.

Major improvements have thus far been installed in a limited number of plants. The iron- and steel-making departments of the Magnitogorsk and Kuznetsk Combines, where advanced technology has been introduced, are as efficient as the best units in the United States. Industry-wide productivity rates, however, are considerably lower than in the United States, where crude steel output per worker in 1955 was 163 tons, as compared with only 88 tons in the USSR. The large opportunities for improvement

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make possible long strides toward attaining the sharp rises in efficiency called for by the plan.

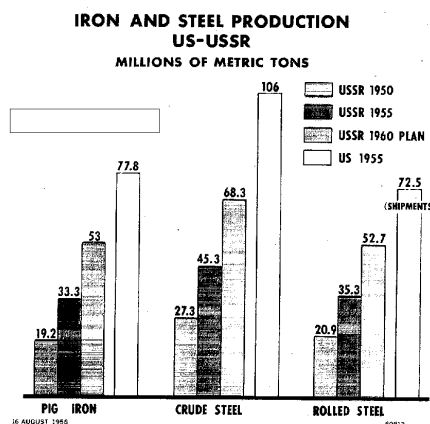
Low labor productivity and the extensive processing required for raw materials suggest that steel production in the USSR is no less expensive than in other major steel-producing countries. Relative to the United States, the principal competitive advantage of the Soviet iron and steel industry appears to lie in its low wage rates. Soviet emphasis on use of advanced techniques to increase production from existing facilities appears to be a considered policy aimed at expanding output with a minimum of outlay. In some instances this will result in higher operating costs than would have been the case had additional facilities been provided.

Outlook for Plan Fulfillment

As in past plans, major iron and steel production goals set for 1960 are likely to be met despite the probable under-fulfillment of certain supporting programs in the Five-Year Plan. In the past this industry has consistently failed to complete its planned modernization and new construction programs. Blast furnace efficiency, scheduled to increase 30 percent in 1951-1955, improved only 22 percent. Even more serious failures during that period were shortfalls of 26,000,000 tons in the construction of new iron ore capacity and 4,800,000 tons (25 to 35 percent) in the installation of new rolling mill capacity. Such failures have not in the past prevented the industry from attaining planned increases in production. Output goals have been met by scheduling maximum production from new and existing capacity and by continuing in service inefficient

facilities that otherwise would have been retired.

Present plans appear to incorporate provisions for replacing obsolete facilities and possibly for creating reserve capacity--a cushion which could be abandoned if production targets are endangered. More additional capacity is provided for in the plan than would be required to meet the 1960 out-



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put goals for pig iron, crude steel, and rolled steel. In the case of crude steel, for example, the combined increase in capacity expected from increased efficiency and from new facilities is 26,600,000 tons--3,600,000 tons more than the planned increase in the annual rate of production.

If planned increases in efficiency materialize and if construction schedules are met completely, which appears unlikely on the basis of past performance, the industry will be in a position to meet production goals while replacing obsolete units and creating some reserve capacity. However, a shortfall of nearly 15 percent in the planned expansion of crude steel capacity, although preventing the successful achievement of retirement and reserve aims, would not bar the possibility of meeting production goals. (Prepared by ORR)

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